VALLEY COMMUNITY SCHOOL DISTRICT

INDEPENDENT AUDITOR'S REPORTS
BASIC FINANCIAL STATEMENTS
AND SUPPLEMENTARY INFORMATION
SCHEDULE OF FINDINGS

June 30, 2006

TABLE OF CONTENTS

		Page
Officials		4
Independent Auditor's Report		5-6
Management's Discussion and Analysis		7-16
Basic Financial Statements:	Exhibit	
Government-wide Financial Statements:		
Statement of Net Assets	A	18
Statement of Activities	В	19
Governmental Fund Financial Statements:		
Balance Sheet	С	20
Reconciliation of the Balance Sheet -	-	
Governmental Funds to the Statement		
of Net Assets	D	21
Statement of Revenues, Expenditures	_	
and Changessin Fund Balances	E	22-23
Reconciliation of the Statement of	_	
Revenues, Expenditures and Changes		
in Fund Balances - Governmental Funds		
to the Statement of Activities	F	24
	r	27
Proprietary Fund Financial Statements:	G	25
Statement of Net Assets	G	23
Statement of Revenues, Expenses and	TT	26
Changes in Fund Net Assets	H	
Statement of Cash Flows	I	27
Fiduciary Fund Financial Statements:	-	0.0
Statement of Fiduciary Net Assets	J	28
Notes to Financial Statements		29-42
Required Supplementary Information:		
Budgetary Comparison Schedule of		
Revenues, Expenditures and Changes		
in Balances - Budget and Actual - All		
Governmental Funds and Proprietary Fund		44
Notes to Required Supplementary Information	_	
Budgetary Reporting		45

TABLE OF CONTENTS (cont.)

Other Supplementary Information	Schedule	Page
Nonmajor Special Revenue Funds:	_	
Combining Balance Sheet	1	47
Combining Schedule of Revenues,		
Expenditures and Changes in		
Fund Balances	2	48
Schedule of Changes in Special Revenue		
Fund, Student Activity Accounts	3	49
Schedule of Changes in Fiduciary Assets		
and Liabilities - Agency Fund	4	50
Schedule of Revenues by Source and		
Expenditures by Function - All		
Governmental Funds	5	51
Independent Auditor's Report on Internal		
Control over Financial Reporting and on		
Compliance and Other Matters Based on an		
Audit of Financial Statements Performed		
in Accordance with Government Auditing		
Standards		52-53
		г/
Schedule of Findings		54

VALLEY COMMUNITY SCHOOL DISTRICT

Officials

		Term
Name	<u>Title</u>	<u>Expires</u>
	n : 1	
	Board of Education	·
	(Before September 2005 Election)	
Lois Dummermuth	President	2006
Greg Kleppe	Vice President	2007
Allen Knox	Board Member	2005
Mick Olson	Board Member	2005
Celeste Strong	Board Member	2006
	Board of Education	
•	(After September 2005 Election)	
•	•	
Greg Kleppe	President	2007
Lois Dummermuth	Vice President	2006
Celeste Strong	Board Member	2006
Mick Olson	Board Member	2008
Dawn Daughton	Board Member	2008
	School Officials	
Cathleen Molumby	Superintendent	2006
Denice Dickman Jennifer Willenbring	Business Manager/District Treasurer Business Manager/District Treassurer	Resigned Apr 1, 2006 2006
Carole Nading	District Secretary	2006
T. David Katsumes	Attorney	2006

Dietz, Donald & Company

CERTIFIED PUBLIC ACCOUNTANTS

STEVEN S. CLAUSEN, CPA

124A Main • P.O. Box 359 Elkader, Iowa 52043 (563) 245-2154 • (800) 310-2154

Independent Auditor's Report

To the Board of Education of Valley Community School District

We have audited the accompanying financial statements of the governmental activities, the business type activities, each major fund and the aggregate remaining fund information of Valley Community School District, Elgin, Iowa, as of and for the year ended June 30, 2006, which collectively comprise the District's basic financial statements listed in the table of contents. These financial statements are the responsibility of District officials. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in <u>Government Auditing Standards</u>, issued by the Comptroller General of the United States. Those standards and provisions require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business type activities, each major fund and the aggregate remaining fund information of Valley Community School District at June 30, 2006, and the respective changes in financial position and cash flows, where applicable, for the year then ended in conformity with U.S. generally accepted accounting principles.

In accordance with <u>Covernment Auditing Standards</u>, we have also issued our report dated <u>December 15</u>, 2006 on our consideration of Valley Community School District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters.

The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on internal control over financial reporting or compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.

Management's Discussion and Analysis and budgetary comparison information on pages 7 through 16 and 43 through 45 are not required parts of the basic financial statements, but are supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. We did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Valley Community School District's basic financial statements. We previously audited, in accordance with the standards referred to in the second paragraph of this report, the financial statements for the three years ended June 30, 2005 (which are not presented herein) and expressed unqualified opinions on those financial statements. Other supplementary information included in Schedules I through 5, is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in our audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Elkader, Iowa 52043

December 15, 2006

Dietz, Donald & Company, CPAs

FEIN 42-1172392

Valley Community School District

Cathleen A. Molumby, Superintendent

23493 Canoe Road Elgin, IA 52141-9634 Ph. 563-426-5501 Fax 563-426-5502 www.valley.k12.ia.us



Management Discussion & Analysis

This section of the Valley Community School District's annual financial report presents its discussion and analysis of the District's financial performance during the fiscal year ended June 30, 2006. The analysis focuses on the District's financial statements as a whole. Please read it in conjunction with the District's financial statements, which follow this section.

2006 FINANCIAL HIGHLIGHTS

General Fund revenues increased overall by \$ 88,467 compared to FY05, while expenditures increased \$ 86,667. Total expenditures of \$ 4,097,097 exceeded total revenues of \$ 4,063,340 by \$ 33,757. This resulted in a decrease in the District's General Fund balance from \$ 421,970 to \$ 395,438.

The increase in revenues was mostly attributable to an increase in state aid and federal grants, offset by a slight decrease in property tax.

Salaries and benefits increased about \$ 17,400, supplies and equipment decreased about \$ 42,500 while purchased services decreased about \$ 41,000.

OVERVIEW OF THE FINANCIAL STATEMENTS

This report consists of three parts; management's discussion and analysis (this section), the basic financial statements and required supplementary information. The basic financial statements include two kinds of statements that present different views of the District:

The first two statements are District-wide financial statements that provide both short-term and long-term information about the District's overall financial status.

The remaining statements are fund financial statements that focus on individual parts of the District, reporting the District's operations in more detail than the District-wide statements.

The governmental fund statements explain how basic services such as regular and special education were financed in the short-term as well as what remains for future spending.

Proprietary funds statements offer short-term and long-term financial information about the activities the District operates like businesses, such as food services.

Fiduciary funds statements provide information about the financial relationships in which the District acts solely as a trustee or agent for the benefit of others.

The financial statements also include notes that explain some of the information in the statements and provide more detailed data. The statements are followed by a section of Required Supplementary Information that further explains and supports the financial statements with a comparison of the District's budget for the year. Following the Required Supplementary Information, Other Supplementary Information provides detailed information about the nonmajor governmental funds.

REPORTING THE DISTRICT'S FINANCIAL ACTIVITIES

District-wide Financial Statements

The District-wide statements report information about the District as a whole using accounting methods similar to those used by private-sector companies. The Statement of Net Assets includes all of the District's assets and liabilities. All of the current year's revenues and expenses are accounted for in the statement of activities regardless of when cash is received or paid.

The two District-wide statements report the District's net assets and how they have changed. Net assets - the difference between the District's assets and liabilities - are one way to measure the District's financial position.

Over time, increases or decreases in the District's net assets may serve as an indicator of whether financial position is improving or deteriorating, respectively.

To assess the District's overall health, you need to consider additional non-financial factors such as changes in the District's property tax base and the condition of school buildings and other facilities.

In the District-wide financial statements, the District's activities are divided into two categories:

Governmental activities: Most of the District's basic services

are included here, such as regular and special education, transportation and administration. Property taxes and state aid finance most of these activities.

Business-type activities: The District charges fees to help cover the costs of certain services it provides. The District's food service program would be included here.

Fund Financial Statements

The fund financial statements provide more detailed information about the District's funds, focusing on its most significant or "major" funds - not the District as a whole. Funds are accounting devices the District uses to keep track of specific sources of funding and spending on particular programs.

Some funds are required by state law and by bond covenants.

The District establishes other funds to control and manage money for particular purposes, such as accounting for student activity funds or to show that it is properly using certain revenues such as federal grants.

The District has three kinds of funds:

Governmental funds: Most of the District's basic services are included in governmental funds, which generally focus on (1) how cash and other financial assets that can readily be converted to cash flow in and out and (2) the balance left at year-end that are available for spending. Consequently, the governmental funds statements provide a detailed short-term view that helps you determine whether there are more or fewer financial resources that can be spent in the near future to finance the District's programs. Because this information does not encompass the additional long-term focus of the District-wide statements, additional information included in Exhibits D and F explains the relationship or differences between the two statements.

The District's governmental funds include the General Fund; Special Revenue Funds; Debt Service Fund and Capital Projects Fund.

Proprietary funds: Services for which the District charges a fee are generally reported in proprietary funds. Proprietary funds are reported in the same way as the District-wide statements.

The District's enterprise funds, one type of proprietary fund, are the same as its business-type activities but provide more detail and additional information, such as cash flows. The District currently has only one enterprise fund, school nutrition.

Fiduciary funds: The District is the trustee, or fiduciary, for assets that belong to others, such as the Northeast Iowa Health

Occupations Consortium.

The District is responsible for ensuring that the assets reported in these funds are used only for their intended purposes and by those to whom the assets belong. The District excludes these activities from the District-wide financial statements because it cannot use these assets to finance its operations.

DISTRICT-WIDE FINANCIAL ANALYSIS

	Condensed Statement of Net Assets(Expressed in Thousands)							
		mental ities		ess Type vities		tal rict	Total Change	
•	June	30,	June	30,	June	30,	June30,	
	2006	2005	2006	2005	2006	2005	2005-2006	
Current and other assets	\$ 3,565	3,336	95	97	3,660	3-433	6.7%	
Capital assets	3,175	3,293	14	16	3,189	3,309	-3.6%	
Total assets	6,740	6,629	109	113	6,849	6,742	1.6%	
Long-term liabilities	1,577	1,791	_	-	1,577	1,791	-11.9%	
Other liabilities	1,844	1,826	18	17	1,862	1,843	1.0%	
Total Liabilities	3,421	3,617	18	_17	3,439	3,634	_5.4%_	
Net assets: Invested in capital assets,		•					•	
net of related debt	1,879	1,923	14	. 16	1,893	1,939	-2.4%	
Restricted	612	596	-	-	612	596	2.7%	
Unrestricted	828	493	77	80_	905	573	57 <u>.9%</u>	
Total net assets	\$ 3,319	3,012	91	96	3,410	3,108	9.7%	

The District's combined net assets increased by over 9%, or approximately \$ 302,000 over the prior year. The largest portion of the District's net assets is the investment in capital assets (e.g., land, infrastructure, buildings and equipment), less the related debt. The debt related to the investment in capital assets is liquidated with sources other than capital assets.

Restricted net assets represent resources that are subject to external restrictions, constitutional provisions or enabling legislation on how they can be used. The District's restricted net assets increased approximately \$ 16,000 or 3% over the prior year.

Unrestricted net assets - the part of net assets that can be used to finance day-to-day operations without constraints established by debt convenants, enabling legislation or other legal requirements - increased \$ 332,000 or 58%. This increase in unrestricted net

assets was a result of accumulating an additional \$216,000 in the capital projects fund.

			-		t Assets Thousand:	s)	
	Governm		Business Activit		To: Dist:	tal cict	Total Change
			June 3		June		June 30,
•	<u>June</u>						
	2005-2	2006	2005-2	006	2005	-2006	2005-2006
Revenues:							
Program revenues:			-				
Charges for service	\$ 305	304	119	120	424	424	-%
Operating grants,							**
contributions and		ee.			740	570	C 0%
restricted interest	598	551	121	127	719	678	6.0%
Capital grants,			•				
contributions and	8	226			8	226	-96.5%
restricted interest General revenues:	0	220	-	_	o	220	-30.5%
Property tax	1,463	1,519		-	1,463	1,519	-3.7%
Local option sales and	1,400	1,010			1,100	1,015	
service tax	302	234	-	_	302	234	29.1%
Income tax surtax	14	_	-	_	14		-%
Unrestricted state grants		2,061	-	_	2,184	2,061	6.0%
Unrestricted investment							
earnings	49	29	3	2	52	31	67.7%
Other	. 29	. 26	_	-	29	26	11.5%
Total revenues	4,952	4,950	243	249	5,195	5,199	.1%
Program expenses:					•		
Governmental activities:							
Instruction	2,850	2,752	-	-	2,850	2,752	3.6%
Support services	1,437	1,351	-	-	1,437	1,351	6.4%
Non-instructional programs	3	_	248	253	251	253	1%
Other expenses	356	331			356	331	7.6%
Total expenses	4,646	4,434	248	253	4,894	4,687	4.4%
Change in net assets	\$ 306	516	(5)	(4)	301	512	-41.2%

Property taxes and unrestricted state grants account for 70% of the total revenue. The District's expenses primarily relate to instruction and support services, which account for 88% of the total expenses.

Governmental Activities

Revenues for governmental activities were \$ 4,952,714 and expenses were \$ 4,646,481. The following table presents the total and net cost of the District's major governmental activities: instruction, support services, non-instructional programs and other expenses.

·	Total and Net Cost of (Expressed in	Governmental Activities Thousands)
	Total Cost of Services	Net Cost of Services
Instruction Support services Non-instructional Other expenses	\$ 2,850 1,437 3 356	\$ 2,158 1,399 1,47 3 175
Totals	\$ 4,646	\$ 3,735

The cost financed by users of the District's programs was \$ 304,707.

Federal and state governments subsidized certain programs with grants and contributions totaling \$ 606,315.

The net cost of government activities was financed with \$ 1,779,261 in property and other taxes and \$ 2,184,208 in unrestricted state grants.

Business Type Activities

The District's only business-type activity is the School Nutrition Fund. The School Nutrition Fund balance stayed fairly steady at \$ 91,452, a decrease of \$ 4,885 compared to last year. Revenues of this fund are comprised of charges for services, federal and state reimbursements and investment income. Expenses consist of employee wages, benefits, food, general supplies, repairs and depreciation. During the school year, a part-time employee was added. Also, continued from the previous year were programs offering breakfast bags for students to buy and salads for adults. The District has not increased lunch prices since 1997/98.

INDIVIDUAL FUND ANALYSIS

As previously noted, the Valley Community School District used fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

The financial performances of the District as a whole is reflected in its governmental funds as well. As the District completed fiscal year 2006, its governmental funds reported combined fund balances of \$ 1,735,455 about \$ 207,000 above last year's ending fund balances of \$ 1,681,425. The primary reason for the increase was only spending one-third of the local option sales tax revenue in FY06.

Governmental Fund Highlights

The General Fund balance decreased from \$ 421,970 to \$ 395,438, due mostly to increased expenditures in salaries and benefits.

The Physical Plant and Equipment Levy (PPEL) Fund balance decreased by \$ 6,349 to \$ 458,555. Included in the ending balance is \$ 227,817 of QZAB loan funds.

The Capital Projects Fund balance increased by \$ 215,626 to \$ 701,496 as only one-third of the local option sales tax revenue was spent in FY06. Included in the ending balance is \$ 147,505 of unexpended QZAB loan funds.

The Management Fund ending balance increased to \$ 71,283. Revenues (primarily property tax) increased from \$ 72,342 to \$ 100,904 and expenses increased slightly from \$ 64,936 to \$ 77,904, resulting in a net increase to the fund balance of about \$ 21,220.

The Student Activity Fund ending balance increased about \$ 7,000 to \$ 81,818. Expenses increased about \$ 25,300 mostly because of major trips taken by the music department during the year.

Proprietary Fund Highlights

Revenues of the District's Nutrition Fund activities decreased 1.9% to \$ 243,922, while expenses decreased 1.5% to \$ 248,267. Special programs begun during FY04 were continued. If the operating balance exceeds three months normal operating costs, schools are to implement a plan of action to reduce the balance.

BUDGETARY HIGHLIGHTS

School districts have two levels of budgetary control. One form of budgetary control exists through the "certified budget". In accordance with the Code of Iowa, the Board of Education annually adopts a budget following required public notice and hearing for all funds, except its private purpose trust funds and agency funds. This is referred to as the certified budget. The certified budget may be amended during the year utilizing similar statutorily prescribed procedures. The District's certified budget is prepared on the GAAP basis. It is certified with the County Auditor and Department of Management each year. Iowa school districts may not certify a general fund budget

in excess of its spending authority.

A schedule showing the original and final budget amounts compared to the District's actual financial activity is included in the required supplementary information section of this report.

Over the course of the year, the District amended its certified budget once on April 10, 2006. Budgeted expenditures were increased \$ 63,800, however actual expenditures did not exceed the original budget. Therefore, the budget amendment proved to be unnecessary.

Total expenditures were less than budgeted due primarily to the area of Facility Acquisition and Construction. There were several budgeted projects anticipated at the time the budget was approved in April, 2005. However, it was difficult to determine which projects would actually be started or completed in FY06.

Actual General Fund expenditures were about \$ 92,000 less than budgeted. It is the District's practice to budget expenditures at the maximum authorized spending authority for the General Fund, as explained in the next paragraph. The District then controls General Fund spending through its line-item budget. As a result, the District's certified budget should always exceed the actual expenditures during the year for the General Fund.

The other level of budgetary control is the "unspent (maximum) authorized budget" and pertains only to the General Fund of the District. The maximum authorized budget is the total "spending authority" in the General Fund of the District. The unspent balance is a budgetary concept and does not mean the "actual General Fund cash". It is imperative for users of District financial information to make this important distinction. The unspent balance is the amount of spending authority that is carried over into the next fiscal year. The unspent balance is a budgetary carry-over and does not represent actual dollars (General Fund cash) or actual financial position (unreserved, undesignated General Fund balance) of the District.

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

At June 30, 2006, the District had invested \$ 3.2 million net of accumulated depreciation, in a broad range of capital assets in the governmental funds. This includes land, buildings, equipment, transportation equipment, and construction in progess. (See chart below). More detailed information about capital assets is available in Note 5 to the financial statements. Depreciation expense for the year in the governmental funds was approximately \$ 131,000.

The District has a capitalization threshold of \$ 3,000 per asset for governmental funds. The threshold remains at \$ 500 for business-type funds.

The School Nutrition Fund owned \$ 14,481 in assets, net of depreciation. This is down slightly from \$ 15,986 on June 30, 2005, due to FY06 depreciation expense.

Only \$ 13,673 in capital projects were completed in FYO6.

Capital Assets, net of Depreciation

				(Express	ed in t	housands)			
			ental ties	Business Type Activities		Total District		Total Change	
		June	30,	<u>June</u>	30,	June	30,	June 30,	
	200)6	2005	2006	2005	2006	2005	2005-2006	
Land	\$	33	33	_	_	33	33	0.0%	
Site improvements		39	39	-	-	39	39	0.0%	
Buildings	3,	,064	3,161	-	-	3,064	3,161	-3.1%	
Furniture and equipment	<u> </u>	39	59	14	16	53	75	-29.3%	
Totals	<u>\$3</u> .	,175	3,292	14	16	3,189	3,308	-3.6%	

Long-Term Debt

At year-end, the District had debt of \$ 1,550,000 in general obligation bonds, revenue bonds, and capital loan notes. This represents a decrease of approximately \$ 220,000 from last year. (See chart below). More detailed information about the District's long-term liabilities is available in Note 6 to the financial statements.

Also as previously noted, the District issued \$ 220,000 in revenue bonds and \$ 340,000 in capital loan notes to fund the QZAB no-interest loan that was awarded. Annual payments will be made to an escrow agent with both local option sales tax receipts and the voter-approved Physical Plant and Equipment Levy.

A payment of \$ 150,000 was made on the existing general obligation bonds, lowering the balance due from \$ 430,000 to \$ 280,000.

A payment of \$ 70,000 was made on the 2004 revenue bonds (\$ 850,000 issue) lowering the balance to \$ 710,000. Also outstanding are QZAB revenue bonds of \$ 220,000 and QZAB capital loan notes of \$ 340,000. The QZAB obligations are not due until 2013; however deposits will be sent to an escrow agent annually to hold for final payment.

	Out		ng Long-Term ssed in thou	n Obligations usands)
		Tota Distri		Total <u>Change</u>
i e e e e e e e e e e e e e e e e e e e	•	June 3),	June 30,
	_20	006	2005	2005-2006
General obligation bonds	\$	280	430	-34.9%
Revenue bonds		930	1,000	-7.0%
Capital loan notes		340	340	0.0%
Compensated absences		27	17	58.8%
Totals	\$ >	L _# 577	1,787	-11.8%

FACTORS BEARING ON THE DISTRICT'S FUTURE

At the time these financial statements were prepared and audited, the District was aware of a few existing circumstances that could significantly affect its financial health in the future:

Taxable valuation in the District increased slightly from \$ 96,355,633 to \$ 96,402,637.

Enrollment decreased in September of 2005, which determines FY06 funding. Combined with 4% allowable growth, the District will receive an additional \$ 248,000 in state aid for 2006/07. However, property tax receipts will decrease \$ 49,000.

Employment contract settlements for a three year period were reached with both bargaining groups. The package settlements are:

Certified Staff
2005/06: 4.0%
2006/07: 4.2%
2007/08: 4.4%

Support Staff
2005/06: 5.45%
2006/07: 4.32%
2007/08: 3.09%

Engineering has been done with the goal of expanding air conditioning into the media center. This project is currently on hold.

CONTACTING THE DISTRICT'S FINANCIAL MANAGEMENT

This financial report is designed to provide the District's citizens, taxpayers, customers, and investors and creditors with a general overview of the District's finances and to demonstrate the District's accountability for the money it receives. If you have questions about this report or need additional financial information, contact Melissa Fettkether, Business Manager/Board Treasurer, or Cathleen Molumby, Superintendent.

Basic Financial Statements

VALLEY COMMUNITY SCHOOL DISTRICT STATEMENT OF NET ASSETS June 30, 2006

		ernmental tivities	Business Type Activities	Total
ASSETS				
Cash and cash equivalents	\$	1,996,169	87,792	2,083,961
Receivables:			•	
Property tax:			_	
Delinquent		32,224	0	32,224
Succeeding year		1,414,050	0	1,414,050
Accounts		0	281	281
Due from other funds		1,754	0	1,754
Due from other governments		120,317	0	120,317
Inventories		0	6,897	6,897
Capital assets, net of				
accumulated depreciation		3,175,263	14,481	3,189,744
TOTAL ASSETS		6,739,777	109,451	6,849,228
LIABILITIES				
Accounts payable		18,364	9	18,373
Salaries and benefits payable		395,550	13,684	409,234
Accrued interest payable		15,363	0	15,363
Due to other governments		1,095	0	1,095
Deferred revenue:				
Succeeding year property				
tax		1,414,050	0	1,414,050
Other		0	4,306	4,306
Long-term liabilities:			·	•
Portion due within one year	:			
General obligation bonds				
payable		145,000	. 0	145,000
Revenue bonds payable		75,000	0	75,000
Compensated absences		27,121	0	27,121
Portion due after one year:		-		
General obligation			•	
bonds payable		135,000	. 0	135,000
Revenue bonds payable		855,000	0	855,000
Notes payable		340,000	0	340,000
TOTAL LIABILITIES		3,421,543	17,999	3,439,542
NET ASSETS				
Invested in capital assets,				
net of related debt]	1,794,518	14,481	1,808,999
Restricted for:			•	• -
Management levy		71,283	0	71,283
Physical plant and		•		-
equipment		423,710	0	423,710
Other special revenue purpos	ses	81,818	0	81,818
Unrestricted		946,905	76,971	1,023,876
TOTAL NET ASSETS	\$ 3	3,318,234	91,452	3,409,686
::				

VALLEY COMMUNITY SCHOOL DISTRICT STATEMENT OF ACTIVITIES Year Ended June 30, 2006

Net (Expenses) Revenue and Changes in Net Assets

			1		and Ch	and Changes in Net Assets	ts
			Operating Grants,	Capital Grants,			
			Contributions	Contributions	Governmental	Business Type	
		Charges	and Reserved	Interest	Activities	Activities	Total
Governmental activities:	Tig Const		,	••			
Instruction:	4	91 .400	223,418	0	(1,343,251)	. 0	(1,343,251)
Kegular	596 088 600 000 4	12.551	160,098	0	(716,614)	.	(470,017)
Special	309,611	171,424	32,923	0	(98, 264)		(001.831.07)
Cinet	2,849,943	275,375	416,439	0	(2,158,129)		(4,1,0,1,6)
Support services:		,	n n	0	(96.843)	0	(96,843)
Student	106,469	9,068	0 100	.	(139,121)	0	(139,121)
Instructional staff	148,570	948	400.0	¬ ((541,952)	0	(541,952)
Administration	541,952	C	c				
Plant operation and		15 100	-	0	(458,140)	0	(458,140)
maintenance	166 006	781.7	0	0	(162,862)	0	(162,862)
Transportation	1,437,309	29,332	9,059	0	(1,398,918)	0	(1,370,310)
Non-instructional	2.719	0	0	0	(2,712)	0	(2,712)
Other expenditures:					(408 56)	0	(27,804)
Facilities acquisition		0		0.00	(44.550)	0	(44,550)
Long-term debt interest	est 44,550	· c	179 207	o (0	0	0
AEA flow through		-	1/2,207	•			
Depreciation	101, 376	0	0	0	(103,376)	0	(103, 376)
(OHALIOCACEA)	356,547	0	172,207	8,610	(175,730)	c	(1/3,/30)
Total governmental activities	4,646,511	304,707	597,705	8,610	(3,735,489)	0	(3,735,489)
Business type activities:	i i i				,	(8 130)	(8 129)
Food service operations	ons 248,267	119,099	121,039	8 610	(3.735.489)	(8,129)	(3,743,618)
Total	\$ 4,894,778	423,806	44/,81/	010,0	(0) (00) (00)		
GENERAL REVENUES:						•	
Property tax levied for:					1,229,685		1,229,085
Debt service					167,783	- -	65,448
Capital outlay					101,669	0 (301,669
Ø	and services tax			-	14,676	0	14,676
Income tax surtax					2,184,208	D	2,184,208
Unrestricted state grants	ice aminos				49,085	3,244	30 139
Other	Ċ				29,138	2 244	4 044 936
Total general revenues	ies .				306.203	(4,885)	301,318
Changes in net assets					3,012,031	96,337	3,108,368
Net assets beginning of year	ear				\$ 3,318,234	91,452	3,409,686

See notes to financial statements.

Net assets end of year

VALLEY GOMMUNITY SCHOOL DISTRICT BALANCE SHEET GOVERNMENTAL FUNDS June 30, 2006

ASSETS Cash and pooled investments Receivables: Property taxes:	General \$ 761,959	Special Revenue Property, Plant and Equipment levy 457,117	Capital Projects 602,315	Nonmajor 174,778	Total 1,996,169
Property taxes:	25,173 1,248,200 1,754 34,901	1,434 60,956 0	0 0 13,784 85,397	5,617 104,894 0	32,224 1,414,050 15,538 120,317
TOTAL ASSETS	\$ 2,071,987	519,511	701,496	285,304	3,578,298
LIABILITES AND FUND BALANCES Accounts payable Salaries and benefits payable Due to other funds Due to other governments	\$ 17,920 395,550 13,784 1,095	0000	0000	. 0	18,354 395,550 13,784 1,095
Deferred revenue: Succeeding year property tax	1,248,200	60,956	0	104,894	1,414,050
Total liabilities	1,676,549	60,956	0	105,338	1,842,843
Fund balances; Reserved for: Debt service Unreserved	0 395,438	34,845 423,710	107,545 593,951	26,865 153,101	169,255 1,566,200
Total fund balances	395,438	458,555	701,496	179,966	1,735,455
TOTAL LIABILITIES AND FUND BALANCES	\$ 2,071,987	519,511	701,496	285,304	3,578,298

VALLEY COMMUNITY SCHOOL DISTRICT RECONCILIATION OF THE BALANCE SHEET-GOVERNMENTAL FUNDS TO THE STATEMENT OF NET ASSETS June 30, 2006

Total fund balances of governmental funds (page 20).	\$ 1,735,455
Amounts reported for governmental activities in the Statement of Net Assets are different because:	
Capital assets used in governmental activities are not financial resources and, therefore, are not reported as assets in the governmental funds.	3.,175,263
Accrued interest payable on long-term liabilities is not due and payable in the current period and, therefore, is not reported as a liability in the governmental funds.	(15,363)
Long-term liabilities, including bonds and notes payable and compensated absences, are not due and payable in the current period and, therefore, are not reported in	
the governmental funds.	(1,577,121)
Net assets of governmental activities (page 18).	\$ 3,318,234

Exhibit E

VAILEY COMMUNITY SCHOOL DISTRICT STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES GOVERNMENTAL FUNDS Year Ended June 30, 2006

Excess (deficiency) of revenues over (under) expenditures	Total expenditures		AEA flow through	Other	Interest	Principal	Orner expenditures: Facilities acquisition	Non-instructional programs			Transportation	maintenance	Administration and	THREE HOLD OF OFFICE	Tratement at aff	Support services:	:	Other	Special	Regular	Instruction:	Current:	Expenditures:	Total revenues	Federal sources	State sources	Other	Tuition	Local tax	Local sources:	Revenues:		
(33,757)	4,097,097	172,207	172,207	0	0	0	0	T, 700		1,279,094	149,084	369,651	700,122	700 721 721	146,146	105.682	2,643,846	114,202	889,263	1,640,381				4,063,340	217,143	2,533,293	92,45/	85,134	\$ 1,135,313			General	
(6,349)	100,732	32,681	0	œ	O	0	32,673		o .	68,051	0	68,051	1	י פ	o ·	0	0	o	. 0	. 0	ì			94,383			14,199	1, 100	80,124	20.72		and Equipment levy	Special Revenues
313,981	10,931	10,931	0	7	0	0	10,924		0	0	0	0	,	0	0	0	0	٥			•			324,912	0,100	B 4 19	400¢	1, 00,	500° TÜC	201 660		Capital Projects	
(66,778)	536,857	266,732	c	800	45,932	220,000	0		762	59,254	7,912	20,661	•	29,439	455	787	210,109	192,421		1/,000	17 200			4/0,0/9		0	2505,000	207 692	0 0	363 755		Nonmajor	
207,097	4,745,617	482,551	1/2,20/	578	45,932	220,000	43,597		2,712	1,406,399	156,996	458,363		537,970	146,601	106,469	2,853,955	200,022	306 633	575 000 T,000,000	1 659 060			4,922,714	715 030 4	225,582	2 523 585	399,152	25.136	1.779.261		Total	

Exhibit E (continued)

VAILEY COMMUNITY SCHOOL DISTRIGT STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN BALANCES GOVERNMENTAL FUNDS Year Ended June 30, 2006

	General	Special Revenue Property, Plant and Equipment levy	Gapital Projects	Nonmajor	Total
Other financing sources (uses): Operating transfers in Operating transfers out	7,225 0	0	0 (98,355)	99,355 (8,225)	106,580 (10 <u>6,580</u>)
Total other financing sources (uses)	7,225	0	(98,355)	91,130	0
Net change in fund balances	(26,532)	(6,349)	215,626	24,352	207,097
Fund balances beginning of year	421,970	464,904	485,870	155,614	1,528,358
Fund balances end of year	\$ 395,438	458,555	701,496	179,966	1,735,455

VALLEY COMMUNITY SCHOOL DISTRICT RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES - GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES Year Ended June 30, 2006

Net change in fund balances - total governmental funds (page 23).

\$ 207,097

Amounts reported for governmental activities in the Statement of Activities are different because:

Capital outlays to purchase or build capital assets are reported in governmental funds as expenditures. However, those costs are not reported in the Statement of Net Assets and are allocated over their estimated useful lives as depreciation expense in the Statement of Activities. Depreciation expense exceeded capital outlay expenditures in the current year as follows:

Depreciation expense Expenditures for capital assets \$ (130,895) 13,673

(117, 222)

Repayment of long-term liabilities is an expenditure in the governmental funds, but the repayment reduces long-term debt in the Statement of Net Assets.

220,000

Interest on long-term debt in the
Statement of Activities differs from
the amount reported in the
governmental funds because interest is
recorded as an expenditure in the funds
when due. In the Statement of Activities,
interest expense is recognized as the
interest accrues, regardless of when
it is due.

2,197

Some expenses reported in the Statement of Activities do not require the use of current financial resources and, therefore, aremotypeported assexpenditures aim the governmental funds as follows:

Compensated absences

(5,869)

Change in net assets of governmental activities (page 19).

\$ 306,203

VALLEY COMMUNITY SCHOOL DISTRICT STATEMENT OF NET ASSETS PROPRIETARY FUND June 30, 2006

	School Nutrition
ASSETS	
Cash and cash equivalents Accounts receivable Inventories Capital assets, net of accumulated depreciation TOTAL ASSETS	\$ 87,792 281 6,897 14,481 109,451
LIABILITIES	
Accounts payable Salaries and benefits payable Deferred revenue TOTAL LIABILITIES	9 13,684 4,306 17,999
NET ASSETS	
Invested in capital assets, net of related debt Unrestricted	14,481 76,971
TOTAL NET ASSETS	\$ 91,452

VALLEY COMMUNITY SCHOOL DISTRICT STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND NET ASSETS PROPRIETARY FUND Year Ended June 30, 2006

	School Nutrition
Operating revenues:	•
Local sources:	
Charges for service	\$ 119,099
Operating expenses:	
Non-instructional programs:	
Food service operations:	
Salaries	87,559
Benefits	34,311
Purchased services	548
Supplies	123,835
Depreciation	2,014
Total operating expenses	248,267
Operating loss	(129,168)
Non-operating revenues:	
State sources	5,157
Federal sources	115,882
Interest income	3,244
	124,283
Change in net assets	(4,885)
Net assets beginning of year	96,337
Net assets end of year	\$ 91,452

VALLEY COMMUNITY SCHOOL DISTRICT STATEMENT OF CASH FLOWS PROPRIETARY FUND Year Ended June 30, 2006

Cash flows from operating activities: Cash received from sale of lunches and breakfasts Cash received from miscellaneous operating activities Cash paid to employees for services Cash paid to suppliers for goods or services Net cash used by operating activities	School Nutrition \$ 115,613
Cash flows from non-capital financing activities: State grants received Federal grants received Net cash provided by non-capital financing activities	5,157 96,929 102,086
Cash flows from capital and related financing activities: Acquisition of capital assets	(509)
Cash flows from investing in activities: Interest on investments	3,244
Net decrease in cash and cash equivalents Cash and cash equivalents beginning of year	(2,831) 90,623
Cash and cash equivalents end of year	\$ 87,792
Reconciliation of operating loss to net cash used by operating activities:	
Operating loss Adjustments to reconcile operating loss to net cash used by operating activities:	\$ (129,168)
Commodities use	18,953 2,014
Depreciation Increase in accounts receivable	(82)
Increase in inventories	(698)
Decrease in accounts payable Increase in salaries and benefits payable	(55) 2,118
Decrease in deferred revenue	(734)
Net cash used by operating activities	<u>\$ (107,652</u>)

Non-cash investing, capital and financing activities: During the year ended June 30, 2006, the District received \$ 18,953 of federal commodities.

VALLEY COMMUNITY SCHOOL DISTRICT STATEMENT OF FIDUCIARY NET ASSETS FIDUCIARY FUND June 30, 2006

	Agency
ASSETS Cash and pooled investments Due from other governments	\$ 170
TOTAL ASSETS	1,912
LIABILITIES Accounts payable Due to other funds TOTAL LIABILITIES	158 1,754 1,912
NET ASSETS	\$ 0

VALLEY COMMUNITY SCHOOL DISTRICT Notes to Financial Statements June 30, 2006

(1) Summary of Significant Accounting Policies

Valley Community School District is a political subdivision of the State of Iowa and operates public schools for children in grades kindergarten through twelve. Additionally, the District either operates or sponsors various adult education programs. These courses include remedial education as well as vocational and recreational courses. The geographic area served includes the cities of Clermont, Elgin and Wadena, Iowa and the predominate agricultural territory of eastern Fayette and western Clayton Counties. The District is governed by a Board of Education whose members are elected on a nonpartisan basis.

The District's financial statements are prepared in conformity with U.S. generally accepted accounting principles as prescribed by the Governmental Accounting Standards Board.

A. Reporting Entity

financial reporting purposes Valley Community School District has included all funds, organizations, agencies, boards, commissions, and authorities. The District has also considered all potential component units for which it is financially accountable, and other organizations for which the nature and significance of their relationship with the District are such that exclusion would cause the District's financial statements to be misleading or incomplete. Governmental Accounting Standards Board has set forth criteria to be considered in determining financial accountability. These criteria include appointing a voting majority of an organization's governing body, and (1) the ability of the District to impose its will on that organization or (2) the potential for the organization to provide specific benefits to or impose specific financial burdens on the District. Valley Community School District has no component units which meet the Governmental Accounting Standards Board criteria.

Jointly Governed Organizations

The District participates in two jointly governed organizations that provide services to the District but do not meet the criteria of a joint venture since there is no ongoing financial interest or responsibility by the participating governments.

The District is a member of the Fayette County Assessor's Conference Board and the Clayton County Assessor's Conference Board.

B. Basis of Presentation

Government-wide Financial Statements - The Statement of Net Assets and the Statement of Activities report information on all of the nonfiduciary activities of the District. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities, which normally are supported by tax and intergovernmental revenues, are reported separately from business type activities, which rely to a significant extent on fees and charges for service.

The Statement of Net Assets presents the District's nonfiduciary assets and liabilities, with the difference reported as net assets. Net assets are reported in three categories:

Invested in capital assets, net of related debt consists of capital assets, net of accumulated depreciation and reduced by outstanding balances for bonds, notes and other debt attributable to the acquisition, construction or improvement of those assets.

Restricted net assets result when constraints placed on net asset use are either externally imposed or imposed by law through constitutional provisions or enabling legislation.

Unrestricted net assets consist of net assets that do not meet the definition of the two preceding categories. Unrestricted net assets often have constraints on resources imposed by management which can be removed or modified.

The Statement of Activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those clearly identifiable with a specific function. Program revenues include (1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function and (2) grants, contributions and interest restricted to meeting the operational or capital requirements of a particular function. Property tax and other items not properly included among program revenues are reported instead as general revenues.

Fund Financial Statements - Separate financial statements are provided for governmental, proprietary and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds

are reported as separate columns in the fund financial statements. All remaining governmental funds are aggregated and reported as nonmajor governmental funds.

The District reports the following major governmental funds:

The General Fund is the general operating fund of the District. All general tax revenues and other revenues that are not allocated by law or contractual agreement to some other fund are accounted for in this fund. From the fund are paid the general operating expenditures, including instructional, support and other costs.

The Special Revenue Property, Plant and Equipment Levy Fund is used to account for revenues derived from the property, plant and equipment levy which are required by law to be accounted for in a separate fund.

The Capital Projects Fund is used to account for all resources used in acquisition and construction of capital facilities.

The District reports the following major proprietary fund:

The District's proprietary fund is the Enterprise, School Nutrition Fund. This fund is used to account for the food service operations of the District.

The District also reports a fiduciary fund which focuses on net assets and changes in net assets. The District's fiduciary fund is the following:

The Agency Fund is used to account for assets held by the District as an agent for individuals, private organizations and other governments. The Agency Fund is custodial in nature, assets equal liabilities, and does not involve measurement of results of operations.

C. Measurement Focus and Basis of Accounting

The government-wide, proprietary and fiduciary fund financial reported using the economic statements are of accounting. measurement focus and the accrual basis Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property tax is recognized as revenue in the year for which it is levied. Grants and similar items as revenue as soon as eligibility all recognized requirements imposed by the provider has been satisfied.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days after year end.

Property tax, intergovernmental revenues (shared revenues, grants and reimbursements from other governments) and interest associated with the current fiscal period are all considered to be susceptible to accrual. All other revenue items are considered to be measurable and available only when cash is received by the District.

Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, principal and interest on long-term debt, claims and judgments and compensated absences are recognized as expenditures only when payment is due. Capital asset acquisitions are reported as expenditures in governmental funds. Proceeds of general long-term debt and acquisitions under capital leases are reported as other financing sources.

Under the terms of grant agreements, the District funds certain programs by a combination of specific cost-reimbursement grants and general revenues. Thus, when program expenses are incurred, there are both restricted and unrestricted net assets available to finance the program. It is the District's policy to first apply cost-reimbursement grant resources to such programs, and then general revenues.

The proprietary fund of the District applies all applicable GASB pronouncements, as well as the following pronouncements issued on or before November 30, 1989, unless these pronouncements conflict with or contradict GASB pronouncements: Financial Accounting Standards Board Statements and Interpretations, Accounting Principles Board Opinions, and Accounting Research Bulletins of the Committee on Accounting Procedure.

Proprietary funds distinguish operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the District's Enterprise Fund is charges to customers for sales and services. Operating expenses for enterprise funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

The District maintains its financial records on the cash basis.

The financial statements of the District are prepared by making memorandum adjusting entries to the cash basis financial records.

D. Assets, Liabilities and Fund Equity

The following accounting policies are followed in preparing the financial statements:

Cash, Pooled Investments and Cash Equivalents - The cash balances of most District funds are pooled and invested. Investments are stated at fair value except for the investment in the Iowa Schools Joint Investment Trust which is valued at amortized cost and non-negotiable certificates of deposit which are stated at cost.

For purposes of the statement of cash flows, all short-term cash investments that are highly liquid are considered to be cash equivalents. Cash equivalents are readily convertible to known amounts of cash and, at the day of purchase, have a maturity date no longer than three months.

<u>Property Tax Receivable</u> - Property tax in governmental funds is accounted for using the modified accrual basis of accounting.

Property tax receivable is recognized in these funds on the levy or lien date, which is the date the tax asking is certified by the Board of Education. Delinquent property tax receivable represents unpaid taxes for the current and prior years. The succeeding year property tax receivable represents taxes certified by the Board of Education to be collected in the next fiscal year for the purposes set out in the budget for the next fiscal year. By statute, the District is required to certify its budget in April of each year for the subsequent fiscal year. However, by statute, the tax asking and budget certification for the following fiscal year becomes effective on the first day of the year. Although the succeeding year property tax receivable has been recorded, the related revenue is deferred in both government-wide and fund financial statements and will not be recognized as revenue until the year for which it is levied.

Property tax revenue recognized in these funds become due and collectible in September and March of the fiscal year with a 1½% per month penalty for delinquent payments; is based on January 1, 2004 assessed property valuations; is for the tax accrual period July 1, 2005 through June 30, 2006 and reflects the tax asking contained in the budget certified to the County Board of Supervisors in April 2005.

Due from Other Governments - Due from other governments

represents amounts due from the State of Iowa, various shared revenues, grants and reimbursements from other governments.

<u>Inventories</u> - Inventories are valued at cost using the firstin, first-out method for purchased items and government commodities. Inventories of proprietary funds are recorded as expenses when consumed rather than when purchased or received.

Capital Assets - Capital assets, which include property, furniture and equipment, are reported in the applicable governmental or business type activities columns in the government-wide Statement of Net Assets. Capital assets are recorded at historical cost. Donated capital assets are recorded at estimated fair market value at the date of donation. The cost of normal maintenance and repair that do not add to the value of the asset or materially extend asset lives are not capitalized. Capital assets are defined by the District as assets with an initial, individual cost in excess of the following thresholds and estimated useful lives in excess of two years.

Asset Class	Amount
Land	\$ 3,000
Buildings	3,000
Improvements other than buildings	3,000
Furniture and equipment:	
School Nutrition Fund equipment	500
Other furniture and equipment	3,000

Capital assets are depreciated using the straight-line method over the following estimated useful lives:

	Estimated
	Useful Lives
Asset Class	(In Years)
Buildings	20-50 years
Improvements other than buildings	20 years
Furniture and equipment	4-12 years

Salaries and Benefits Payable - Payroll and related expenditures for teachers with annual contracts corresponding to the current school year, which are payable in July and August, have been accrued as liabilities.

Deferred Revenue - Although certain revenues are measurable, they are not available. Available means collected within the current period or expected to be collected soon enough thereafter to be used to pay liabilities of the current period. Deferred revenue in the governmental fund financial statements represents the amount of assets that have been recognized, but the related revenue has not been recognized since the assets are not collected within the current period or expected to be collected soon enough thereafter to be used to pay liabilities of the current period. Deferred revenue consists of unspent grant proceeds as well as property tax receivable and other receivables not collected within sixty days after year end.

Deferred revenue in the Statement of Net Assets consists of succeeding year property tax receivable that will not be recognized as revenue until the year for which it is levied and lunch fees collected in advance.

Compensated Absences - District employees accumulate a limited amount of earned but unused vacation for subsequent use or for payment upon termination, death or retirement. A liability is recorded when incurred in the government-wide financial statements. A liability for these amounts is reported in governmental fund financial statements only for employees that have resigned or retired. The compensated absences liability has been computed based on rates of pay in effect at June 30, 2006. The compensated absences liability attributable to the governmental activities will be paid primarily by the General Fund.

Long-term liabilities - In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the governmental activities column in the Statement of Net Assets.

Fund Equity - In the governmental fund financial statements, reservations of fund balance are reported for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose.

Restricted Net Assets - In the government-wide Statement of Net Assets, net assets are reported as restricted when constraints placed on net assets are either externally imposed by creditors, grantors, contributors or laws and regulations of other governments or imposed by law through constitutional provisions or enabling legislation.

E. Budgets and Budgetary Accounting

The budgetary comparison and related disclosures are reported as Required Supplementary Information.

(2) Cash and Pooled Investments

The District's deposits in banks at June 30, 2006 were entirely covered by federal depository insurance or by the State Sinking Fund in accordance with Chapter 12C of the Code of Iowa. This chapter provides for additional assessments against the depositories to insure there will be no loss of public funds.

The District is authorized by statute to invest public funds in obligations of the United States government, its agencies and instrumentalities; certificates of deposit or other evidences of deposit at federally insured depository institutions approved by the Board of Education; prime eligible bankers acceptances; certain high rated commercial paper; perfected repurchase agreements; certain registered openend management investment companies; certain joint investment trusts; and warrants or improvement certificates of a drainage district.

The District had investments in the Iowa Schools Joint Investment Trust which are valued at an amortized cost of \$ 1,597,314 pursuant to Rule 2a-7 under the Investment Company Act of 1940.

Restricted Cash - Cash held in escrow by the Bank of America for retirement of QZAB bonds (see Note 6) as follows:

Special Revenue Property,	Plant	and	Equipment		
Levy Fund				\$ 34,	,845
Capital Projects Fund				22	<u>,545</u>
Total				<u>\$ 57.</u>	,390

Interest rate risk - The District's investment policy limits the investment of operating funds (funds expected to be expended in the current budget year or within 15 months of receipt) in instruments that mature within 397 days. Funds not identified as operating funds may be invested in investments with maturities longer than 397 days but maturities shall be consistent with the needs and use of the District.

<u>Credit risk</u> - The investments in the Iowa Schools Joint Investment Trust was rated Aaa by Moody's Investors Services.

(3) Due From and Due to Other Funds

The detail of interfund receivables and payables at June 30, 2006 is as follows:

Receivable Fund	Payable Fund	Amount
General	Agency	\$ 1,754
Capital Projects	General	13,784
Total	•	\$ 15,538

The Agency Fund is repaying the General Fund for items paid by the General Fund, while the Agency Fund was awaiting payment from other school districts.

The General Fund is repaying the Capital Projects Fund for local option sales tax that was incorrectly recorded during the current year.

(4) Interfund Transfers

The detail of interfund transfers for the year ended June 30, 2006 is as follows:

Transfer to	Transfer from	Amount
General	Special Revenue: Library Trust Management Levy	\$ 564225 1,000
		7,225
Special Revenue: Student Activities	Special Revenue: Management Levy	1,000
Debt Service	Capital Projects	98,355
Total		\$ 106,580

Transfers generally move revenues from the fund statutorily required to collect the resources to the fund statutorily required to expend the resources.

(5) Capital Assets

Capital assets activity for the year ended June 30, 2006 was as follows:

•	Balance Beginning of		Balance End
÷	Year	Increases	of Year
Governmental activites:			
Capital assets not being depreciated:			•
Land	\$ 32,907		32,907
Capital assets being depreciated:	•		
Buildings	4,258,604	3,885	4,262,489
Site improvements	60,487	3,298	63,785
Furniture and			
equipment	377,510	6,490	384,000
Total capital assets being depreciated	4,696,601	13,673	4,710,274

	Balance Beginning of Year	Increases	Balance End of Year
Less accumulated			
depreciation for:		·	
Buildings	1,097,727	100,186	1,197,913
Site improvements	21,489	3,189	24,678
Furniture and equipment	317,807	27,520	345,327
Total accumulated			
depreciation	1,437,023	130,895	1,567,918
Total capital assets being	2 050 570	(117,000)	2 142 256
depreciated, net	3,259,578	(117,222)	3,142,356
Governmental activities capital assets, net	\$ 3,292,485	(117,222)	3,175,263
Business type activities:			
Furniture and equipment	\$ 68,916	509	69,425
Less accumulated			_, _,
depreciation	52,930	2,014	54,944
Business type activities			
capital assets, net	\$ 15,986	(1,505)	14,481

Depreciation expense was charged to the following functions:

Governmental activities: Instruction: Other	\$ 2,478
Support services: Instructional staff Operation and maintenance of plant Transportation	1,969 13,072 10,000
	27,519
Unallocated	103,376
Total depreciation expense-governmental activites	\$ 130,895
Business type activities Food service operations	\$ 2,014

(6) Long-Term Liabilities

Changes in long-term liabilities for the year ended June 30, 2006 are summarized as follows:

	Balance Beginning of Year	Additions	Reductions	Balance End of Year	Due Within One Year
General obligation bonds	\$ 430,000		150,000	280,000	145,000
Revenue bonds	1,000,000	-	70,000	930,000	75,000
Notes payable Compensated absences	340,000 21,252	13,593	7,724	340,000 27,121	27,121
Total	\$ 1,791,252	13,593	227,724	1,577,121	247,121

Early Retirement

The District offers voluntary early retirement plans to both its certified employees and support employees. Eligible employees must have completed fifteen years of continuous contracted halftime or greater service to the District and be at least 55 years old as of June 30 of the school year in which the employee applied to participate in the early retirement.

Each participating employee shall receive as early retirement pay an amount equal to 25% of the employee's current annual contracted base salary, excluding any overtime pay, extra duty pay, extracurricular pay, supplemental pay, Phase II and Phase III monies, Teacher Compensation Funds, pay pursuant to any extended contracts or shift differentials or any other payment not included in the employee's currant annual contracted base salary.

This plan will only be offered until February 1, 2007.

Early retirement expenditures for the year ended June 30, 2006 totaled \$ 9,435.

General Obligation Bonds Payable

Details of the District's June 30, 2006 general obligation bonded indebtedness are as follows:

Year		Bond Issue of	May 1, 2001	
Ending June 30,	Interest Rates	Principal	Interest	Total
2007 2008	4.20% 4.25%	\$ 145,000 135,000	11,828 5,737	156,828 140,737
Tota1		\$ 280,000	17,565	297,565

Revenue Bonds Payable

Details of the District's June 30, 2006 local option sales and service tax revenue bonded indebtedness are as follows:

Year	Bond I	ssue of Sep :	1, 2003	Bond Issu	e Dec 28,	2003		
Ending	Interest		_	Interest		<u> </u>	Total	
June 30,	Rates	Principal	Interest	Rates	Principa	l Principal	Interest	Total
2007	3.35 %	\$ 75,000	25,526	0	\$	75,000	25,526	100,526
2008	3.35%	80,000	22,930	0	-1	000,08	22,930	102,930
2009	3.35 %	80,000	20,250	0	(000,08	20,250	100,250
2010	3.50%	85,000	17,423	0	+	0 85,000	17,423	102,423
2011	3.80%	90,000	14,225	0		0 90,000	14,225	104,225
2012	4.00%	95,000	10,615	0		0 95,000	10,615	105,615
2013	4.20%	100,000	6,615	0		0 100,000	6,615	106,615
2013	4.30 %	105,000	2,257	Ö	220,00	0 325,000	2,257	327,257
Total	4.00 %	\$ 710,000	119,841	0	\$ 220,00		119,841	1,049,841

The local option sales and service tax revenue bonds were issued for the purpose of defraying a portion of the cost of school infrastructure. The bonds are payable solely from the proceeds of the local option sales and service tax revenues received by the District. The bonds are not a general obligation of the District. However, the debt is subject to the constitutional debt limitation of the District. The resolution providing for the issuance of the September 1, 2003 local option sales and services tax revenue bonds included the following provisions:

- a) \$ 85,000 of the proceeds from the issuance of the revenue bonds shall be deposited to the Reserve Account to be used solely for the purpose of paying principal and interest on the bonds if insufficient money is available in the Sinking Account. The balance of the proceeds shall be deposited in the Project Account.
- b) All proceeds from the local option sales and service tax shall be placed in a Revenue Account.
- c) Monies in the Revenue Account shall be disbursed to make deposits into a Sinking Account to pay the principal and interest requirements of the revenue bonds for the fiscal year.
- d) Any monies remaining in the Revenue Account after the required transfer to the Sinking Account may be transferred to the Project Account to be used for any lawful purpose.

The resolution providing for the issuance of the District's December 28, 2003 local option sales and service tax revenue bonds included the following provisions:

a) To provide for the payment of the bonds at maturity there is established with the Bank of America, N.A. of Des Moines, Iowa an irrevocable trust fund for the benefit of bondholders known as the Escrow Account to be invested as per the Investment Agreement. Annually, on July 1 of each year commencing July 1, 2005, there shall be deposited from the Sinking Fund into the Escrow Fund \$ 22,545 to be invested in accordance with the terms of the Investment Agreement. Such amount has been determined to be sufficient together with invested earnings thereon to pay when due the principal of the bonds. The Escrow Fund is pledged to the payment of the bonds at maturity. At June 30, 2006 the escrow account balance was \$ 22,545.

Notes Payable

During the year ended June 30, 2004 the District issued Capital Loan Notes (Qualified Zone Academy Bonds) to provide funds for the equipping, rehabilitation and repair of the School. The notes bear no interest and are payable from the Special Revenue, Physical Plant and Equipment Levy Fund (PPEL Fund). On July 1 of each year commencing July 1, 2005, there shall be deposited from the PPEL Fund to the Escrow Fund \$ 34,845 to be invested in accordance with the Investment Agreement and held in trust for the benefit of the holders of the Note until final maturity July 1, 2013. 30, 2006 the escrow account balance was \$ 34,485. In any year in which taxable valuations within the District are of an amount that the tax collections will be less than \$ 34,845, the District shall certify to each County Auditor an additional tax levy to the full extent of 45c per thousand dollars of assessed valuation. Details of the District's indebtedness under the agreement in effect at June 30, 2005 are as follows:

Year	December 2	8, 2003
Ending	Capital Loa	n Notes
June 30,	Principal	Interest
2014	\$ 340,000	0

(7) Pension and Retirement Benefits

The District contributes to the Iowa Public Employees Retirement System (IPERS), which is a cost-sharing multiple-employer defined benefit pension plan administered by the State of Iowa. IPERS provides retirement and death benefits which are established by statute to plan members and beneficiaries. IPERS issues a publicly available financial report that includes financial statements

and required supplementary information. The report may be obtained by writing to IPERS, P.O. Box 9117, Des Moines, Iowa 50306-9117.

Plan members are required to contribute 3.70% of their annual covered salary and the District is required to contribute 5.75% of annual covered payroll for the years ended June 30, 2006, 2005 and 2004. Contribution requirements are established by state statute. The District's contributions to IPERS for the years ended June 30, 2006, 2005 and 2004 were \$ 154,473, \$ 147,992 and \$ 143,347 respectively, equal to the required contributions for each year.

(7) Risk Management

Valley Community School District is exposed to various risks of loss related to torts; thefts; damage to and destruction of assets; errors and omissions; injuries to employees; and natural disasters. These risks are covered by the purchase of commercial insurance. The District assumes liability for any deductibles and claims in excess of coverage limitations. Settled claims for these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

(8) Area Education Agency

The District is required by the Code of Iowa to budget for its share of special education support, media and educational services provided through the area education agency. The District's actual amount for this purpose totaled \$ 172,207 for the year ended June 30, 2006 and is recorded in the General Fund by making a memorandum adjusting entry to the cash basis financial statements.

(9) Lease Commitments

The District has various leases for equipment which are classified as operating leases. Rent expense for all operating leases for the year ended June 30, 2006 totaled \$ 85,390.

Future minimum lease payments under the noncancelable operating leases with initial or remaining terms of one year or more are as follows:

Amount
\$ 82,496
43,827
36,907

Required Supplementary Information

VALLEY COMMUNITY SCHOOL DISTRICT
BUDGETARY COMPARISON SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN BALANCES
BUDGET AND ACTUAL - ALL GOVERRMENTAL FUNDS AND PROPRIETARY FUND
REQUIRED SUPPLEMENTARY INFORMATION
Year Ended June 30, 2006

Balances end of year	and other financing sources over (under) expenditures Ralances beginning of year	Excess (deficiency) of revenues	Excess (deficiency) of revenues over (under) expenditures Other financing sources, net	Total expenditures	Non-instructional programs Other expenditures	Support services	Expenditures: Instruction	Total revenues	teneral contect	prace sources	Chora scotters	Revenues:			
\$ 1,735,157	206,799 1,528,358		206,799 0	4,745,617	482,551	1,406,399	2,853,955	014,366,4	7 050 716	225,582	2.533.585	\$ 2.193,249	Actual	Funds	Governmental
91,452	(4,885) 96,337		(4,885) 0	248,267	0	248-267	0	******	28F F76	115,882	5,157	122,343	Actual	Fund	Proprietary
1,826,609	201,914 1,624,695		201,914	4,993,884	482,551	1,406,399 250,979	2,853,955		5 195 798	341,464	2,538,742	2,315,592	Actual	Total	
1,202,835	(393,339) 1,596,174		(393,839) 500	5,473,394	913,138	255,560	2,891,372		5,079,555	371,330	2,566,116	2,142,109	Original	Budgetec	
1,139,035	(457,139) 1,596,174		(457,639) 500	5,537,194	913,138	272,125	2,891,372		5,079,555	371,330	2,566,116	2,142,109	TEDIA	Budgeted Amounts	
687,574	659,053 28,521		659,553 (500)	543,310	430,587	21,146	37,417 54 160		116,243	(29,866)	(27,3/4)	173,483	Agrance	Total Accuar	Final to

Valley Community School District

Notes to Required Supplementary Information - Budgetary Reporting

Year Ended June 30, 2006

This budgetary comparison is presented as Required Supplementary Information in accordance with Governmental Accounting Standards Board Statement No. 41 for governments with significant budgetary perspective differences resulting from not being able to present budgetary comparisons for the General Fund and each major Special Revenue Fund.

In accordance with the Code of Iowa, the Board of Education annually adopts a budget following required public notice and hearing for all funds except Private Purpose Trust and Agency Funds. The budget may be amended during the year utilizing similar statutorily prescribed procedures. The District's budget is prepared on a GAAP basis.

Formal and legal budgetary control for the certified budget is based upon four major classes of expenditures known as functions, not by fund. These four functions are instruction, support services, non-instructional programs and other expenditures. Although the budget document presents function expenditures or expenses by fund, the legal level of control is at the aggregated functional level, not by fund. The Code of Iowa also provides District expenditures in the General Fund may not exceed the amount authorized by the school finance formula. During the year, the District adopted one budget amendment increasing budgeted expenditures by \$ 63,800.

Other Supplementary Information

Schedule 1

VALLEY COMMUNITY SCHOOL DISTRICT COMBINING BALANCE SHEET NORMAJOR FUNDS June 30, 2006

	co.	pecia	Special Revenue Funds	spur		
	Library	۲	Management	Student	Debt	
ASSETS	Trust		Levy	Activity	Service	Total
Cash and pooled investments	-to	0	69,187	82,262	23,329	174,778
Receivables:						
Property tax:		>	2 092	0	3.525	5,617
Delinquent		-	76067		ָ נ נ נ	10/ RQ/
Succeeding year		0	104,894		•	+60° +01
Twe from other governments		0	4	0	11	15
TOTAL ASSETS	Ş	0	176,177	82,262	26,865	285,304
LIABILITIES AND FUND BALANCES						
Liabilities: Accounts payable		0	0	444	0	444
Deferred revenue: Succeeding year property						
tax	!	0	104,894	0	0	104,894
Total liabilities		٥	104,894	444	0	105,338
Fund balances:						
Reserved for:		•	1	,	000	0 0 0
Debt service			i :	9	700,000	153 107
Unreserved	1	٩	11,200	01,010		
Total fund balances		-	71,283	81,818	26,865	179,966
TOTAL LIABILITIES AND	s	0	176,177	82,262	26,865	285,304
		ľ				

Schedule 2

VALLEY COMMUNITY SCHOOL DISTRICT COMBINING SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES NONMAJOR FUNDS Year Ended June 30, 2006

	Spe	Special Revenue Funds	nds		
	Library Trust	Management Levy	Student Activity	Debt Service	Total
Revenues:					
Local sources:			>	167 702	3 N 3 1 H N
Local tax	s O	94,3/2		707 CDT	207 692
Other	. 0	6,449	044° 96T	7,40	750,702
State sources	0	200	077 00	170 777	670 079
Total revenues	0	100,904	190,440	17,01,7	4,0,0,0
Expenditures:					
Current:					
Instruction:		· · · · · · · · · · · · · · · · · · ·	,	>	17 688
Regular	0	17,688			103 /31
Other	0	0	192,421	_	124,421
Support services:			,	>	797
Student	0	787			n C
Instructional staff	0	455	. =		20 400
Administration	0	29,439	_	_	29,437
Plant operation and)	•	20 661
maintenance	0	20,661	: -		1000
Transportation	0	7,873	39	c	716,1
Non-instructional programs:	,	!	•	5	769
Food service operations	C	/62	_	c	,
Other expenditures:					
Long-term debt:	I	•	>	200	220 000
Principal			,	000,024	72 000
Interest		o C		70.5	800
Other			-	2000	536 857
Total expenditures	0	77,665	192,460	200,732	200,007
Excess (deficiency) of revenues	•	22 220	5 988	(96,005)	(66,778)
Other financing sources (uses)					
Operating transfers in	0	0	1,000	98,355	99,355
Operating transfers out	(6,225)	(2,000)	0	0	(8,225)
Total other financing		6 222		0 0 0 0 0 0 0	01 130
sources (uses)	(6,225)	(2,000)	T,000	20,000	34,350
Net change in fund balances	(6,225)	21,239	986	3 × 515	155,614
Fund balances beginning of year	0,225	440,00	/4,000	26 262	120 000
Fund balances end of year	\$ O	71,283	81,818	26,865	179,966

Schedule 3

VAILEY COMMUNITY SCHOOL DISTRICT
SCHEDULE OF CHANGES IN SPECIAL REVENUE FUND, STUDENT ACTIVITIES ACCOUNT
Year Ended June 30, 2006

Total	Drill Team	Class of 2011	Class of 2010	Class of 2009	Class of 2008	Class of 2007	Class of 2006	Class of 2005	Yearbook	Junior High Student Council	Student Council	National Honor Society	FFA	Athletic Resale	Student O	General Athletics	Softball Fundrauser	Volleyball Fundraiser	Girls' State BaskerDair Tournament	Girls' Basketball Fundraiser	Wrestling Fundraiser	Baseball Fundralser	Football Fundraiser	Boys' Basketball Fundraiser	Golf Fundraiser	Cross Country Fundraiser	Boys! Track Fundraiser	Girls' Track Fundraiser	Wrestling Cheerleaders	Football Cheerleaders	Junior High Athletics	Magazine Sales	Band Uniforms	Band Carnival	Instrumental Music	Vocal Music	Speech	Junior High Drama	Drama	Interest	Account	
\$ 74,830	(962)		410	610	707 T	T 767	1 620	E 029	(41)	483	427	1.708	(950)	11 597	2,000	3 200	1 027	156	2 621	108	(365)	(105)	750 t	600	(285)	684	266	2,322	(653)	836	20	. 0	8,318	2.842	1,142	17,090	(1,120)	1 200	4,900	. 208	or rear	Beginning
199,448	č	5	. 400		370	1000	12 025	1 // 1	2	6.257	649	14,470	0	16.990	0	3 051	36,450	1.586	-1.608	0	9 099	947	819	88t 8	3 474 0	,+,+, z	1 , 70	4,070	2 070	L,430		12,705	254	(,12)	1,013	1001	17,617	, ,,,,	726	085 7	Ve Chines	Revenues
192,460	200	B C	> *	, C	5.		11.255	4.751		7,794	0	14,666	177	19,470		2.622	40,876	0	1,763	0	1.538	980	246	5,584	1 469	, i	1 350	200	2 467	7, 100 1, 100	1 100	0,0/+	27.0	۲,00	3 F.00	70.1	10164	1 151	262	د 111 د	U U	Expenditures
				0	0	0	0	(800)	41	1,208	0	(500)	316	0	0	0	728	0	0	0	0	228	0	0	0	286	-	0 -	0	653	(653)	0 (4) (4)	1,000	1 200	(1 800)	0 4 1 1	4 180	.	0	0	(1.507)	Intrarund
01,010	818 18	(962)	340	810	1,119	1,657	3,419	922	0	154	1,076	1,012	(111)	9,047	21	3,328	(2,671)	1,742	2,496	891	396	0	2,407	7,696	2,381	0	804	1.024	2,733	455	519	(1.931)	755	10 372	5,628	2,019	12,440	(494)	1,167	8,216	1.041	Year

VALLEY COMMUNITY SCHOOL DISTRICT SCHEDULE OF CHANGES IN FIDUCIARY ASSETS AND LIABILITIES AGENCY FUND Year Ended June 30, 2006

	Beg	ance inning Year	Additions	Deletions	Balance End of Year
ASSETS					
Cash	\$	748	70,590	71,168	170
Due from other governments		68	36,636	34,962	1 ; 742
TOTAL ASSETS	\$	816	107,226	106,130	1,912
LIABILITIES Accounts payable Due to other funds		0	96,603 2,692	96,445 938	158 1,754
		-	•		-
Due to other governments		816	7,931	8,747	0
	\$	816	107,226	106,130	1,912

VALLEY COMMUNITY SCHOOL DISTRICT SCHEDULE OF REVENUES BY SOURCE AND EXPENDITURES BY FUNCTION ALL GOVERNMENTAL FUNDS FOR THE LAST FOUR YEARS

	Modified Accrual Basis											
	2006	2005	2004	2003								
Revenues:												
Local sources:												
Local tax	\$ 1,778,963	1,766,838	1,688,618	1,589,022								
Tuition	85,134	80,288	113,882	103,641								
Other	329,152	296,600	257,836	212,421								
State sources	2,533,585	2,387,749	2,217,454	2,339,837								
Federal sources	225,582	419,049	1,050,836	192,486								
	\$ 4,952,416	4,950,524	5,328,626	4,437,407								
Expenditures:												
Instruction:		•										
Regular	\$ 1,658,069	1,617,642	1,672,441	1,644,630								
Special	889,263	764,552	651,501	591,447								
Other	306,623	368,660	421,808	391,355								
Support services:	,	•	•									
Student	106,469	109,244	97,044	99,273								
Instructional staff	146,601	110,504	145,799	205,228								
Administration	537,970	520,321	483,493	490,094								
Plant operation and												
maintenance	458,363	367,752	372,824	319,080								
Transportation	156,996	212,092	233,259	203,149								
Central support	0	1,813	1,574	2,072								
Non-instructional progr	rams 2,712	750	564	489								
Other expenditures:												
Facilities acquisit:	ion 43,597	591,851	1,334,186	105,299								
Long-term debt:												
Principal	220,000	215,000	135,000	135,000								
Interest and other	er	•										
charges	46,747	54,828	90,423	34,472								
AEA flow through	172,207	169,150	169,534	182,995								
Total	\$ 4,745,617	5,104,159	5,809,450	4,404,583								

Dietz, Donald & Company

CERTIFIED PUBLIC ACCOUNTANTS

STEVEN S. CLAUSEN. CPA

124A Main • P.O. Box 359 Elkader, Iowa 52043 (563) 245-2154 • (800) 310-2154

INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL
OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS
BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE
WITH GOVERNMENT AUDITING STANDARDS

To the Board of Education of the Valley Community School District

We have audited the accompanying financial statements of the governmental activities, the business type activities, each major fund and the aggregate remaining fund information of the Valley Community School District as of and for the year ended June 30, 2006, which collectively comprise the District's basic financial statements listed in the table of contents, and have issued our report thereon dated December 15, 2006. We conducted our audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

Internal Control over Financial Reporting

In planning and performing our audit, we considered Valley Community School District's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be material A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Valley Community School District's financial statements are free of material misstatement, we performed tests of its compliance with certain

provisions of laws, regulations, contracts and grant agreements, non-compliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under Government Auditing Standards.

Comments involving statutory and othe legal matters about the District's operations for the year ended June 30, 2006 are based exclusively on knowledge obtained from procedures performed during our audit of the financial statements of the District. Since our audit was based on tests and samples, not all transactions that might have had an impact on the comments were necessarily audited. The comments involving statutory and other legal matters are not intended to constitute legal interpretations of those statutes.

This report, a public record by law, is intended solely for the information and use of the officials, employees and citizens of Valley Community School District and other parties to whom Valley Community School District may report. This report is not intended to be and should not be used by anyone other than those specified parties.

We would like to acknowledge the many courtesies and assistance extended to us by personnel of Valley Community School District during the course of our audit. Should you have any questions concerning any of the above matters, we shall be pleased to discuss them with you at your convenience.

Elkader, Iowa

December 15, 2006

Dietz, Donald & Company, CPAs

FEIN 42-1172392

VALLEY COMMUNITY SCHOOL DISTRICT SCHEDULE OF FINDINGS Year Ended June 30, 2006

Other Findings Related to Statutory Reporting

- A. Certified Budget Disbursements for the year ended June 30, 2006 did not exceed the amounts budgeted.
- B. Questionable Disbursements No disbursements that we believe may not meet the requirements of public purpose as defined in an Attorney General's opinion dated April 25, 1979 were noted.
- C Travel Expenses No expenditures of District money for travel expenses of spouses of District officials or employees were noted. No travel advances to District officials or employees were noted.
- D. Business Transactions No business transactions between the District and District officials or employees were noted.
- E. Bond Coverage Surety bond coverage of District officials and employees is in accordance with statutory provisions. The amount of coverage should be reviewed annually to insure that the coverage is adequate for current operations.
- F. Board Minutes We noted no transactions requiring Board approval which had not been approved by the Board.
- G. Certified Enrollment We noted no variances in the basic enrollment data certified to the Department of Education.
- H. Deposits and Investments No instances of non-compliance with the deposits and investment provisions of Chapter 12B and 12C of the Code of Iowa and the District's investment policy were noted.
- I. Certified Annual Report The Certified Annual Report was filed with the Department of Education timely and we noted no significant deficiencies in the amounts reported.